

looking ahead

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the people of NPA

A Steering Committee Statement

Strengthening the Organization of the Western Community

The following Statement, released on January 25, 1960, has been adopted by the Steering Committee of the National Planning Association. The members of the Committee signing the Statement appear on page 4.

A DECADE AND A HALF after the end of World War II, it is becoming increasingly apparent that a new stage is now emerging in world political and economic relationships. The period of postwar economic reconstruction and political readjustment is clearly coming to an end. World politics is ceasing to be almost exclusively a dialogue or duel between two great world protagonists—the United States and the Soviet Union; other sources of international initiative and pressure, communist as well as noncommunist, are gradually emerging to complicate the international scene and to make more precarious the maintenance of world peace. These trends reflect new capabilities in Europe and the underdeveloped countries and shifts in the relative power positions of the world's leading nations. These developing changes have major implications for U.S. policies, foreign and domestic. This statement is concerned with one such implication for U.S. foreign policy—the necessity to strengthen the organization of the Western Community so that it can cope more effectively with the problems and responsibilities that lie ahead.

I

In the emerging new period of world politics, the need of the United States for continual and effective cooperation with the other Western countries will be greater than ever before.

So long as the power of the United States and the Soviet Union completely overshadowed that of any other country or group of nations, neither of the two giant protagonists was immediately dependent upon its allies and friends for its own defense or even for the effectiveness of its foreign policy. Today, the international

An Indispensable Feature of This Age

- "Planning has become an indispensable feature of living in this complex age.

"Occasionally, people come to my office, or I meet them, and the word 'planning' comes up. I am struck by the fact that so often the individual to whom I am talking seems to think there is something a little phony about the word planning. On the one end it's probably considered apparently academic or theoretical, with no practical application, and the other end of the spectrum it's rather an attempt to express an idea of being 'bossy' in telling other people how they should live. And I normally try to get the matter in perspective by illustrating from military experience what planning is.

"Now in World War Two, I suppose there were as a matter—in the Pacific and in the Atlantic—of, let us say, twenty amphibious landings. And I say to these people, 'How do you suppose these things happen?' Let's assume that we didn't have to plan to get the ships to sea or the people on them, we just thought we're out there. We had them. And now, suddenly, someone said 'Well, let's land.' Can you imagine the confusion and the defeat that would have been inflicted upon any such force? Actually, the days and weeks, and even months, and indeed in the case of Overlord, two years and two months of definite planning before it was accomplished, is usually my answer as to what planning means to success in positive operations."

From remarks of greeting by President Eisenhower to the Association of State Planning and Development Agencies at the Statler Hotel, Washington, D. C., January 14, 1959.



freedom of action of the two leading world powers is inevitably being reduced. Red China has become a stronger and more independent member of the communist bloc. The growing number and more active foreign policies of the noncommunist nations of Asia, Africa, and Latin America make world politics more complex. At the same time, U.S. military power is declining in relation to that of the Soviet Union.

Partially offsetting these changes has been the re-emergence of Western Europe as an important center of world power and influence. Thanks to 15 years of unprecedented economic progress and institutional creation, Western Europe has become a prosperous and progressive region no longer dependent upon overseas possessions and autarchic economic policies to maintain stagnating economies. Productivity and entrepreneurial vigor have grown amazingly in many European industries. Rising living standards and increasing opportunities for personal advancement are beginning to narrow traditional class disparities and to lower outmoded social barriers in many European countries. In turn, these developments have fostered a renewed self-confidence, an incipient reorientation toward the future instead of the past, and a growing consciousness of the limitations of strictly national policies and of the advantages of regional approaches in dealing with Western Europe's internal and external problems.

Thus, at a time when the relative power and freedom of action of the United States are declining, Western Europe's economic and political revival makes possible a redressing of the balance between the Western nations as a group and the rest of the world. Particularly in the economic field, Western Europe can increasingly join its impressive new capabilities and resources to those of the United States in countering the competitive coexistence threat of the Soviet Union and in helping the noncommunist countries of Asia, Africa, and Latin America to accelerate their economic development. However, the urgent need for closer cooperation in these, and other, respects between Western Europe and the United States raises directly the question of whether the existing organizational structure of the Western Community is able to fulfill these purposes. Is it adequate to deal effectively with the changing positions and power relationships of the new period? What specific functions—internal as well as external—must the organization of the West be capable of carrying out in the years to come to insure the security and progress of the Western nations and of friendly countries in other parts of the world? What role will the United States have to play in a strengthened Western organization, and is it prepared to do so?

IN THIS STATEMENT, the Steering Committee of the National Planning Association wishes to call attention to the urgent need to examine the organizational structure of the Western Community in the light of the prospective

new configurations of world politics. In so doing, we will also indicate briefly the main outlines of the kinds of changes in the structure of the Western Community, particularly in its economic organization, that would permit it to cope more effectively with the dangers and problems of the emerging new period in world affairs.

II

The organizational structure of the West must be able to deal adequately with the problems of internal relationships among the Western countries if it is to meet effectively the external responsibilities which the Western Community as a whole will face. Within the West itself, the main nonmilitary need is to insure that all Western countries achieve and maintain adequate rates of economic growth. Their economic growth is dependent to an important degree upon the character of their economic relations with one another. The Western countries have been and will continue to be each others' most important trading partners. If its members are to achieve and maintain adequate rates of economic growth, the West must insure the maximum possible freedom of trade and payments and coordination of national economic policies among its constituent countries and groupings.

Recent economic developments within the West affecting trade and economic policies underscore the need for more effective organizational means to insure Western economic cooperation and coordination. France, West Germany, Italy, and the Low Countries have joined together in the European Economic Community (Common Market), an institution which involves significant surrender of national sovereignty by its members in important areas of economic life. The other West European countries, unwilling to submit to the authority of central institutions, have formed a looser, less unified, free trade area (European Free Trade Association) in an effort to protect themselves against possible discrimination by the Common Market and to realize at least some of the benefits which the latter provides to its six members. The existence of two new European groupings inevitably generates problems of mutual relationships; for example, trade discrimination, payments difficulties, currency convertibility arrangements, and capital movements. Even if the mutual discrimination, which many now fear, does not in fact materialize, it is still essential to provide organizational machinery to insure adequate cooperation and effective policy coordination between these two potentially competitive groups of West European countries.

Similarly, organizational machinery is necessary to insure cooperation and coordination between the two European groupings, on the one hand, and the Western Hemisphere countries, on the other hand. In view of Western Europe's present and prospective capabilities, it should make rapid progress in drastically reducing and, in some cases, abolishing not only currency restrictions but also other forms of discrimination against U.S., Canadian, and other dollar

goods. Achieving and maintaining greater freedom of trade in dollar goods within the Western Community as a whole depends in part upon adequate organizational machinery for mutual consultation, for coordinating national economic policies affecting trade and payments, and for exerting institutional pressures on countries reluctant to reduce their currency, tariff, and other barriers. The United States, Canada, and the dollar countries of northern Latin America have an important stake in an economic institution for the West which can effectively discharge these functions and others discussed below.

None of the existing institutions within the West are capable of carrying on these internal functions that will become increasingly important in future years. The OEEC is too European in its membership, experience, and orientation. Although the United States and Canada have been associate members for several years, and some Latin American countries have attended informally on a few occasions, the OEEC has never developed either the interest in, or the authority for, conducting its operations on the assumption that it is a Western rather than a strictly European institution. Such broader economic functions were originally assigned to NATO by Article II of the NATO Treaty, but no organizational means have ever been established for discharging them. At the global level are the worldwide economic institutions of the United Nations, which include a large number of non-Western countries, communist and noncommunist. It would be neither practicable nor desirable to expect these universal organizations to deal with problems within the Western Community.

The existing economic institutions of the West are even less capable of coping effectively with the external dangers and tasks that will face the Western Community than with its internal problems. Chief among these external problems are meeting the competitive coexistence threat of the communist countries and the need to work out more adequate economic relations, including both trade and aid, with the noncommunist underdeveloped nations of Asia and Africa. To carry on these, and other, external functions, the West will have to mobilize and use its resources as efficiently as possible and to follow a coordinated strategy vis-à-vis the communist bloc and the noncommunist Asian and African countries. Hence, there is need for organizational means which can insure adequate contributions to joint aid programs from Western countries in addition to the United States; and which can coordinate the policies of its members not only in the competitive coexistence struggle with the communist bloc but also in fostering mutually beneficial relationships between the West and the noncommunist nations of Asia and Africa.

IF THE WESTERN COMMUNITY is to deal adequately with the internal difficulties and external tasks of the new period of world politics, it must reorganize

its institutional structure to carry on the foregoing functions more effectively. With this objective in mind, a Study Group sponsored jointly by the National Planning Association and the Woodrow Wilson Foundation urged in 1955 that the Organization for European Economic Cooperation be converted into an Organization for Atlantic Economic Cooperation (OAEC) by the inclusion of the United States and Canada as full members. Again, in 1958, the NPA International Committee advocated the creation of an economic organization for the Atlantic Community whose functions would, at a minimum, "consist of coordinating national economic policies, cooperating in the solution of common economic problems, and carrying on joint development programs in other parts of the noncommunist world."

In view of the current urgency for constructive action, the desired objective could probably be more effectively—and certainly more rapidly—accomplished by transforming the existing and experienced OEEC into an OAEC than by attempting now to establish an entirely new international organization for the West. In general, the former possibility would require such comparatively simple changes as making the United States and Canada full members of the OEEC and amending its charter to enable it to carry out the internal and external functions outlined above. Later, adequate representation in the OAEC could be given to others, such as the various Latin American common markets and free trade areas, if and when they become operative, and the English-speaking Commonwealth countries. A change of name to the Organization for Atlantic Economic Cooperation is highly desirable to symbolize publicly the broadened scope and new responsibilities that the transformed OEEC would possess. Accordingly, the Steering Committee of the National Planning Association strongly supports the serious consideration now being given by the Western governments concerned to transforming the OEEC into the OAEC and urges that its functions be broadened to include, at a minimum, the coordination of national economic policies, particularly as they affect trade and investment, and the carrying on of joint aid programs in the underdeveloped countries.

REGARDLESS of its specific name and membership, a strengthened organizational framework for the Western Community is today more necessary than ever before. If the West is to insure its own economic progress while at the same time coping effectively with the communist threat and helping the new nations of Asia and Africa, it must achieve a more efficient use of its own resources and a coordinated strategy for meeting common dangers and problems and accomplishing positive objectives. These requirements of the new period cannot be met by sporadic consultations and ad hoc improvisations: a formal and continuing institutional framework for the West is alone capable of insuring the degree of efficiency

and coordination necessary to meet the requirements of the new period that lies ahead.

- The People of NPA -

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U. S. Signs Duty-Free Pact

The United States has signed the UNESCO-sponsored agreement on the duty free importation of educational, scientific, and cultural materials which eliminates customs duties on books, newspapers, magazines, works of art, geographic maps, and musical scores. Customs exemption will also be granted to newsreels, educational films, sound recordings, and scientific apparatus when destined for approved institutions. So far, 31 countries have ratified the agreement. The agreement is subject to ratification by the U.S. Congress. (*The UNESCO Courier*, UNESCO Publications Center, New York: September 1959, 34 pp., 30¢ per issue.)

Harry
J.
Rudick



Karsh

Tax authority, lawyer, and professor, Harry J. Rudick has been a member of NPA's Business Committee for over 15 years. A native New Yorker, Mr. Rudick received his undergraduate degree from New York University in 1921. He worked as an accountant from 1918 until 1927 when he received his law degree from St. Lawrence University (Brooklyn Law School). At that time, he was employed by the law firm of McLaughlin, Knollenberg, Royce & Leisure. In 1929, he was admitted to the New York State Bar and in that same year he became associated with the New York law firm, Lord, Day & Lord. He has been a partner of this firm since 1940, and, in addition, he holds a full professorship of law at New York University's School of Law.

Mr. Rudick has held many advisory positions in the tax field. He was a member of the advisory committee appointed by the U. S. Treasury Department in 1944 to study estate and gift tax revision, a member of the advisory committee appointed in 1948 to study revisions of New York tax law, a member of the Tax Policy Committee of the American Law Institute, and has been a technical adviser to the Committee for Economic Development's Research and Policy Committee since 1946. Mr. Rudick has also served as a member of tax committees of the American Bar Association and the New York State Bar Association, and was chairman of the Taxation Committee of the New York City Bar Association from 1940 to 1945. He is a director of a number of corporations and charitable foundations.

Mr. Rudick has given lectures on taxation at leading universities throughout the country and his many writings in that field include numerous law review articles and contributions, published volumes of articles, and symposia on taxation. He was a contributor to NPA's *The Manual of Corporate Giving*.

"The existing tax system persists, not because we are agreed in supporting it, but because we are unable to agree on how to change it."

Essays in Federal Taxation

AT THE REQUEST of the House Committee on Ways and Means, Herbert Stein and Joseph A. Pechman of the Committee for Economic Development prepared a group of studies in the field of Federal taxation. Mr. Stein examines before the Committee what, in general, might be wrong with the Federal tax system, while Mr. Pechman presents his views on more specific taxation problems—the yield of a comprehensive individual income tax, the effects of income splitting and alternative solutions, and the possibility of withholding taxes from interest and dividend payments.

In the opinion of Mr. Stein, the most serious thing wrong with the present tax system is that it does not permit us to raise the proper amount of revenue. (The "proper amount," he cautions, does not necessarily mean more.) The existing system is not a flexible instrument of policy as it should be. If, for example, circumstances arose where it would be desirable to cut taxes as an antirecessionary measure, debate and delay would be inevitable unless the situation were extremely serious, and, ". . . any decision at all quite unlikely" On the other hand, he states, "we accept the yield of the present tax system as a ceiling on revenues." This is, "not because there may not be purposes for which we would be willing to pay higher taxes. It is because the willingness of each of us to pay higher taxes is contingent upon the tax increase being of a kind we like."

In trying to make too many and too fine adaptations to special cases for the sake of fairness and economic effect, he states, we are unable to raise or lower tax rates without getting entrapped in fundamental disputes about equity and economic efficiency. In advocating a more flexible tax structure, Mr. Stein calls for a standard of "rough justice," which can be broadly defined as the "uniform application of the rule that persons of equal incomes should be taxed equally, regardless of the source or use of their incomes, and with as few distinctions in the definition as possible." As for those of unequal income, Mr. Stein personally feels that the present tax structure "is too progressive from the standpoint of justice alone—leaving aside all questions of economic effect or administrative feasibility."

Mr. Stein also urges the Committee to inquire about the effects on economic growth of each of the aspects of the tax system it examines, and cites various basic attitudes which the government might take in approaching this problem.

THE FIRST of three papers presented by Joseph Pechman to the Committee describes the present features of the individual income tax and the principal sources of tax erosion. In calculating what a comprehensive income tax would have yielded at 1957 income levels, Mr. Pechman estimates that the tax base would have been \$58.9 billion larger than it actually was if the eroding features of the tax law had been eliminated; and "the revenues that were collected on the 1957 income could have been raised with rates that were a third lower in every taxable income class."

Mr. Pechman then examines in detail various eroding features of the individual income tax including transfer payments and wage supplements of low-income employees, imputed rent of owner-occupied homes, and interest on life insurance savings. He also points out possible revisions of the personal exemption, personal deduction, and rate schedules.

In calculating an approximate upper limit to the rate of tax reduction that would be feasible if the income tax were broadened, Mr. Pechman declares that "Obviously, it is a matter of personal judgment as to how far this revision should go." However, one thing is clear, he concludes: "Pressures for new preferential provisions continue to be made by taxpayers who feel that the tax law discriminates against them. The only way to resist these pressures is to remove the provisions creating these pressures."

Mr. Pechman also examines before the Committee the discriminatory effects of income splitting on single persons and single heads-of-households.

INCOME SPLITTING was enacted by Congress in 1948 to do away with tax irregularities arising from two specific situations: (1) that couples residing in eight states were able to split their income for tax purposes by virtue of their community property laws and (2) that married couples in noncommunity-property states paid less tax if each spouse had income than if one spouse received all the income. However, in attempting to solve problems created by states rushing to enact community property laws to obtain favorable treatment for their residents, the Congressional legislation created inequities and discrimination against single persons and single heads-of-households. Mr. Pechman surveys these inequities and offers various alternative solutions which include a change

in the application of basic rates, full income splitting privileges to heads-of-households with related dependents, and a revision of the exemption system.

Noting that in 1957, \$1 billion in dividends and \$3.5 billion in interest failed to be reported on individual income tax returns, Mr. Pechman advocates before the Committee a withholding tax for interest and dividend payments. The total revenue loss due to this under-reporting was approximately \$1 billion (\$300 million in dividends and \$700 million in interest).

Improved compliance, increased revenues, and increased equity as well as better taxpayer morality would be the result of a withholding tax plan, he points out, and, in addition, this system would aid the taxpayer in keeping track of small amounts of interest and dividends and would prevent tax delinquency through inadvertance or carelessness. The few disadvantages—overwithholding, excess claims for refunds, and unclaimed refunds—are outweighed by the advantages of the withholding system, Mr. Pechman states. Since the revenue loss from interest and dividend underreporting is so large, withholding on these sources of income should be enacted at least for an experimental period, he concludes. "I have little doubt that, once in operation, interest and dividend withholding will be acknowledged to be just as fair and essential a part of the enforcement process as the wage and salary withholding."

(*Essays in Federal Taxation*, Herbert Stein and Joseph A. Pechman, Committee for Economic Development, New York: 1959, 84 pp., \$1.00.)

ROTC Revisited

The ROTC program, one of the oldest and most direct relationships between higher education and the federal government are examined in a book recently released by the Princeton University Press. This study, *Education and Military Leadership* surveys the past and present and makes proposals for the future of this Officer Corps. The authors feel that with the increasing complexities of our international commitments, a body of highly trained professional career officers is a necessity and that a re-evaluation of the ROTC is an urgent matter. "At every level of responsibility," the authors conclude, "from the college campus to the educational associations to the military departments to the Department of Defense, the real need is to begin to think of the ROTC in terms of the changing nature of our military manpower requirements."

(*Education and Military Leadership*, Gene M. Lyons, and John W. Masland, Princeton University Press, Princeton: 1959, 300 pp. \$5.00.)

Water Resource Development

The benefits of international cooperation in the development of the St. Lawrence River; the use of sprinkler irrigation during drought periods to conserve almost 50 percent of the water necessary under normal irrigation conditions; the extensive use of automation in the operation of the TVA dams and power plants; and the effective use of public relations in the U. S. and European water development projects to encourage the public to visit the projects and take interest in national development undertakings: these are some of the developments which made the strongest impression on a group of water resource development experts from Asia and the Far East presented in a recent U. N. publication, *Water Resource Development in the United States of America and Europe*.

The study group, under the sponsorship of the Technical Assistance Administration and the Economic Commission for Asia and the Far East, visited water development projects in Austria, France, the Netherlands and the United States in the fall of 1958. The study group was particularly interested in the following subjects concerning multiple-purpose river basin development: (1) Broad planning of river basin development; (2) Construction of various types of river basin works including dams and water distribution; (3) Organization for planning, construction, and operation of river basin works at both national and local levels.

In the United States, the study group toured the Mississippi Valley, the Colorado Big Thompson Project and the Hoover Dam, the Engineering Laboratories of the Bureau of Reclamation at Denver and the Corps of Engineers Waterways Experiment Station at Vicksburg, the Chicago Sewage Treatment Plant, the Tennessee Valley Authority, the Niagra Power development (Canadian and American sides), and the St. Lawrence Seaway and Power Projects.

The group visited the Zuyderzee Project, the movable dams of the Delta project, and the canalization of the Rhine at Hagestein Weir in the Netherlands, and visited various water development agencies and projects in France including the Institute Geographique National, the "La Bathie" Power Station and several power installations on the Rhine. In Austria the experts toured development projects on the Danube, Kamp, and Moll Rivers.

Many charts, tables, diagrams, and aerial view photographs are included in the publication, along with a brief description of each project visited and a summary of the experts' comments and impressions.

(*Water Resources Development in the United States of America and Europe*, Report of the Study Group of Experts from Asia and the Far East, United Nations, New York: 1959, 52 pp.)

Italy's Industrial Revolution

THREE IS SOMETHING almost miraculous about the recovery and development of Italian industry in the last twelve years declares Stanley Mayes, author of "Italy's Industrial Revolution," an article appearing in a recent issue of *The Listener*. Mr. Mayes, Senior Assistant of the European Talks of the B.B.C. cites a U.N. Survey published by UNRRA in 1947 which stated that Italy was "bankrupt." That she has been able to emerge as a new and challenging industrial nation in so short a time is due primarily to two factors: American aid and the resilience and vitality of the Italian people."

During the past twelve years, there has been more than just an economic and industrial resurgence in Italy. The foundations of the new economy have developed strong democratic roots, states Mr. Mayes. This is in great contrast with pre-World War II industry which was induced to grow in the way that suited Mussolini's facist and imperialist ambitions.

TWO OF ITALY'S most impressive postwar industrial developments are the motor scooter and the railway system. The shattering of the transportation system in Northern Italy during the war left few buses, trolley cars, or private automobiles on the road and transportation, for the rich and poor alike, was a major problem.

Almost simultaneously, two armament manufacturers, Piaggio in Florence and Innocenti in Milan hit on the idea of the motor scooter. This mode of transportation met the Italian's needs as well as the manufacturer's means of production. The scooter was cheap, small, light, easy to handle, and would run for miles on a gallon of precious blackmarket gasoline; the manufacturers were in possession of bombed-out factories, there was no market for their previously produced product, and workers were available.

In 1953, six years after the first scooters came off the production lines, the two companies combined production totaled about 1000 machines per day. Approximately 30 percent of these were exported; the rest were bought by the Italian people—predominately the working class. "What the manufacturers at first jokingly called 'the child of war, the grandchild of necessity,'" notes Mr. Mayes, "became, as it were, the fairy godchild of Italian industry—a brilliant, splendid symbol of success."

The most significant thing about the Italian railroad system, besides its speedy restoration, is its use of geothermal power as source of electricity. Italy's deficiency in the conventional power fuels has encouraged development and use of natural steam from geysers that are situated about 120 miles north of Rome as an electric power source.

Italy also has to her credit many international engineering achievements. An Italian group of companies was contracted to build the great Kariba dam in Zambesi, and electric power projects are being carried out by Italians in Portugal and Ethiopia. The Italian shipbuilding industry, too, has expanded production. The twelfth oil tanker for the Esso Company has just been completed and three new liners are contemplated for the Italian merchant marine. Yet, states the author, it is Italy's light industrial achievements—such as business machines, small cars, scooters, and sewing machines—which have made Italy prosper. Even the American recession caused only a temporary set back. The industrial production index for June 1959 showed an increase of nearly 9 percent over June 1958; and the output of Italian industry as a whole has risen by more than half since 1953.

Despite Italy's great industrial expansion, unemployment is still a serious problem. In 1955, a ten-year development plan was initiated which aimed at creating 4 million new jobs by 1964. This would provide jobs for the 1,800,000 unemployed (1955) as well as for the additional labor force expected to exist by 1964. The creation of jobs has, however, fallen short of the proposed goal by 10 to 15 percent. The author attributes this failure partly to automation and technical improvements which have cut the number of workers needed faster than anticipated, and partly to the fact that more money has gone to pay higher wages instead of into new investments. Also, the original program called for a certain austerity which the government has not followed.

The traditionally agricultural south, unlike the more progressive north, has not prospered during this industrial expansion period. Thus, nine years ago the government set up a "Southern Fund" which concentrated on public works and attempted to stimulate private capital investments in the south. However, the efforts of the government for the most part have been neutralized for electric power is too costly and scarce to make industrialization profitable. "The truth is that only when the south has become industrialized will it become economic to plant industry there," observes the author. "So the attempt has to be made in uneconomic conditions at first, or not at all." But, the discovery of oil fields in Sicily and methane in Apulia is an encouraging factor to government industrializations attempts and may provide the impetus needed to bring about economic expansion in the south.

ITALY has also become an enthusiastic supporter of a Western European free trade area. In the past three

Looking Ahead

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years she has switched from bilateral to multilateral trade arrangements. Restrictions have been lifted on exchange controls, and in addition, Italians are to have more freedom to buy foreign shares.

In surveying past achievements and speculating on future economic growth, the author concludes that for some time to come, Italy will remain a capital importing rather than capital investing country. "But the progress made during

the past twelve years is a striking tribute to what private enterprise and state encouragement can do when a country, even after years of totalitarian rule and a terrible defeat in war, feels herself at last free to rebuild."

("Italy's Industrial Revolution," Stanley Mayes, *The Listener*, London: December 17, 1959, 40 pp., 15¢ per issue.)

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